

Message Text

CONFIDENTIAL

PAGE 01 CARACA 06356 241053Z

ACTION ARA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00

XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 INT-05

FEAE-00 CEA-01 IGA-02 /096 W

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8177

CONFIDENTIAL CARACAS 6356

E.O. 11652: GDS

TAGS: ENRG, ENV, VE

SUBJECT: PETROLEUM NATIONALIZATION-ARCO AND AMOCO

REF: (A) STATE 37384 (B) CARACAS 5890

SUMMARY: ARCO HAS RE-ESTABLISHED LOCAL OFFICE AND HAS SUCCEEDED IN OBTAINING SOME REDUCTIONS IN CLAIMS AGAINST NATIONALIZED ASSETS. LOCAL REPRESENTATIVE STILL CONSIDERS CURRENT LEVEL OF CLAIMS UNREASONABLE, AND HAS RECOMMENDED THAT ARCO ADVISE DEPARTMENT OF CURRENT STATUS PRIOR TO PRESIDENT PEREZ' VISIT. AMOCO, WITH SMALLEST INVESTMENT OF FOREIGN COMPANIES, IS FIRST TO FORMALLY AGREE TO AMOUNT OF DEDUCTION FROM GUARANTEE FUND FOR ASSETS. NO OTHER AGREEMENTS ARE EXPECTED TO BE SIGNED PRIOR TO U.S. VISIT OF PRESIDENT PEREZ. END SUMMARY.

2. ATLANTIC RICHFIELD COMPANY (ARCO) RE-ESTABLISHED A LOCAL PRESENCE IN VENEZUELA IN LATE APRIL WITH THE ARRIVAL OF MR. TOM ROVELLO, JR. ROVELLO MET WITH AMBASSADOR IN EARLY MAY FOR GENERAL REVIEW OF LOCAL SITUATION BEFORE REPORTING BACK TO HOME OFFICES IN LOS ANGELES. SINCE HIS RETURN TO CARACAS IN EARLY JUNE, HE REPORTS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CARACA 06356 241053Z

HE HAS BEEN UNDER PRESSURE FROM GOV "RECEPTION COMMITTEE" TO AGREE TO AMOUNT OF DEDUCTIONS TO BE ASSESSED AGAINST ARCO'S DEPOSIT IN GUARANTEE FUND FOR CONDITION OF NATIONALIZED ASSETS. ON JUNE 21, ROVELLO AND ARCO ACCOUNTANT JOHN MUHN REVIEWED WITH EMBASSY PETROLEUM OFFICER STATUS OF CLAIMS AGAINST ARCO'S TWO FORMER VENEZUELAN SUBSIDIARIES, SINCLAIR VENEZUELA AND VENEZUELAN ATLANTIC REFINING (VARCO).

3. SINCLAIR, ROVELLO EXPLAINED, PRESENTS POSSIBLE UNIQUE SITUATION IN THAT ITS DEPOSIT IN GUARANTEE FUND EXCEEDS AMOUNT OF COMPENSATION GRANTED. THAT IS, DEPRECIATED NET BOOK VALUE OF SINCLAIR ASSETS AT TIME OF NATIONALIZATION, AND THUS COMPENSATION (\$6.3 MILLION) WAS LESS THAN THE TEN PERCENT OF ACCUMULATED GROSS INVESTMENT REQUIRED TO BE DEPOSITED IN THE GUARANTEE FUND (\$8.6 MILLION). (AMOUNTS IN PARENTHESES ARE AS REPORTED BY GOV.) GOV CLAIMS AGAINST THESE ASSETS, WHICH INITIALLY EXCEEDED THE GUARANTEE FUND DEPOSIT, HAVE NOW BEEN REDUCED TO 67 PERCENT OF THE FUND AND 98 PERCENT OF COMPENSATION, E.G. TO ABOUT \$6 MILLION. CLAIMS AGAINST SOME SPECIFIC INSTALLATIONS, HOWEVER, FAR EXCEED COMPENSATION FOR THOSE INSTALLATIONS, WITH WORST CASE THAT OF EL CHAURE REFINERY, WHERE CLAIM AMOUNTS TO 800 PERCENT OF COMPENSATION. ROVELLO DESCRIBED EL CHAURE AS OLD BUT STILL FUNCTIONING WITHOUT MAJOR PROBLEMS. IN ADDITION, ROVELLO SAID THAT THE GOV OWES ARCO ABOUT \$1.5 MILLION FOR INVENTORIES AND FOR ADJUSTMENTS IN ASSET VALUATIONS AGREED SUBSEQUENT TO NATIONALIZATION.

4. IN THE CASE OF VARCO, ROVELLO WAS LESS SPECIFIC, EXPLAINING THAT IN THIS CASE DISCUSSIONS WITH GOV BEING CONDUCTED BY SUN OIL, WHICH WAS OPERATOR AND PART OWNER OF THOSE PROPERTIES. HE ESTIMATED CLAIM AGAINST ARCO'S SHARE OF THESE ASSETS WOULD BE ABOUT 23 PERCENT OF ARCO'S COMPENSATION FOR

CONFIDENTIAL

PAGE 03 CARACA 06356 241053Z

THEM. HE REPORTED NO APPRECIABLE PROGRESS ON THE BACK TAXES OR COMPTROLLER'S CLAIM FOR EITHER SUBSIDIARY.

5. ROVELLO CONSIDERS CURRENT CLAIMS AGAINST ASSETS, PARTICULARLY IN CASE OF SINCLAIR, TO BE UNREASONABLE AND HAS RECOMMENDED THAT ARCO VICE PRESIDENT RAVESIES ADVISE DEPARTMENT DIRECTLY OF CURRENT SITUATION PRIOR TO PRESIDENT PEREZ' VISIT. RAVESIES AS YET HAS BEEN UNABLE TO SCHEDULE INTENDED PERSONAL VISIT TO VENEZUELA, PRIMARILY BECAUSE OF PRESS OF OTHER RESPONSIBILITIES RESULTING FROM ARCO'S ACQUISITION OF ANACONDA.

6. LOCAL REPRESENTATIVE OF AMOCO, THE LAST OF THE MAJORS TO MOVE INTO VENEZUELA AND THE SMALLEST IN TERMS OF LOCAL INVESTMENT, ADVISED EMBASSY HE SIGNED FORMAL ACCEPTANCE OF RECEPTION COMMITTEE CLAIMS FOR ASSETS ABOUT A WEEK AGO. TO HIS, AND OUR KNOWLEDGE, AMOCO IS THE ONLY COMPANY SO FAR TO HAVE DONE SO. AFTER ADJUSTMENTS MADE FOR INITIAL GOV OVERPAYMENT TO COMPANY FOR INVENTORIES, DEDUCTIONS ATTRIBUTABLE TO CLAIMS AGAINST CONDITION OF AMOCO'S NATIONALIZED ASSETS AMOUNT TO BETWEEN TEN AND FIFTEEN PERCENT OF COMPENSATION. AMOCO REPRESENTATIVE SEEMED SATISFIED WITH THIS, BUT POINTED OUT THAT SINCE ASSETS WERE

RELATIVELY NEW, THERE WAS LITTLE ROOM FOR DISAGREEMENT.
HE ALSO NOTED THAT BONDS REMAINING IN THE GUARANTEE FUND
WOULD NOT BE RETURNED UNTIL THE OTHER OUTSTANDING ISSUES
WERE SETTLED.

7. IT NOW APPEARS THAT MOST OR ALL COMPANIES ARE AWARE OF
RECENT ACTIONS BY RECEPTION COMMITTEE AGAINST THREE
LARGEST EX-CONCESSIONAIRES (REF B). SMALLER COMPANIES
ALSO ARE, OR AT LEAST WERE, UNDER PRESSURE TO REACH
FORMAL AGREEMENT ON ASSETS BEFORE PRESIDENTIAL VISIT.
WE ASSUME THAT GOV WAS ATTEMPTING TO DEMONSTRATE SOME QUICK
POSITIVE RESULTS, BUT LATEST INDICATIONS ARE THAT WHILE
SLOW PROGRESS IS BEING MADE, THIS LAST MINUTE EFFORT HAS
BOGGED DOWN AND ADDITIONAL AGREEMENTS BEFORE VISIT NOW
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 CARACA 06356 241053Z

APPEAR UNLIKELY. THERE ALSO APPEARS TO BE NO APPRECIABLE
CHANGE IN STATUS OF MAJOR EX-CONCESSIONAIRES AS REPORTED
IN REF. B.
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